



INSURANCE ASSOCIATION OF CONNECTICUT

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Statement

Insurance Association of Connecticut

Insurance & Real Estate Committee

March 3, 2016

HB 5445, An Act Concerning the Purchase of an Annuity to Fund Pension Benefits

I am Eric George, President of the insurance Association of Connecticut (the "IAC"). The IAC opposes HB 5445, An Act Concerning the Purchase of an Annuity to Fund Pension Benefits.

HB 5445 would require insurance carriers to make certain disclosures in connection with the purchase of any annuity contract by the pension plans for their participants. HB 5445 is premised upon several faulty presumptions, ignores existing legal requirements, and creates unnecessary exposure for insurance carriers, while potentially creating confusion in the marketplace.

This legislation is premised upon the misconception that retirement benefits provided through an annuity contract are somehow suspect and are, therefore, in need of greater scrutiny. These transactions are already governed by, and subject to, strict fiduciary standards

established by federal law (the Employee Retirement Income Security Act of 1974 ("ERISA")), administered and enforced by the United States Department of Labor (the "USDOL"). These standards require that the plan's fiduciaries discharge their duties prudently and solely in the interest of the plan's participants and beneficiaries. The annuitization of pension benefits is a well-established practice, which has delivered retirement security for decades. This annuitization of pension benefits has been used by both businesses and government entities as a means of providing pension benefits.

HB 5445 adds nothing new in the way of protections for annuitants. To the contrary, its effect will create confusion, as well as potentially unsupported and unjustified concerns, about the financial integrity of annuity products. Such annuity products are subject to state insurance solvency standards and oversight; a regulatory and enforcement regime that has worked exceptionally well, protecting consumers from financial risk for almost 100 years.

HB 5445's disclosure requirements are premised upon a number of faulty assumptions, including the erroneous assertion that the Pension Benefit Guaranty Corporation ("PBGC") coverage is superior to the guarantees of an insurance carrier and state guaranty fund projections. The PBGC fund and state insurance guarantee association system are very different and therefore difficult to compare. Coverage applies differently and is provided in different circumstances. However, simply because the plans are different does not subsequently render one better than the other.

Insurance carriers issuing annuity contracts are required to maintain far greater capital to back the annuity obligation than either the original plan sponsor or the PBGC. Insurance carriers are also required to follow prudent investment strategies. Insurance carriers in general, and those doing business in Connecticut in particular, are also subject to significant insurance regulatory oversight.

It is important to note that PBGC coverage acts as a ceiling; as opposed to state guarantee association coverage, which acts as a floor. The rate of full payment under a state guarantee system, and state regulation, is far higher than that under PBGC coverage. As coverage that may be provided under the state guarantee system is subject to many variables, it is not possible to predict those variables in a way that would yield any information for an annuitant that is either straightforward or useful.

Plan sponsors, plan fiduciaries and Insurance carriers have strived to ensure that workers have all the information they need to understand their benefits, entitlements and rights in connection with annuitization transactions. The goal of insurance carriers and plan sponsors is to make the transition as seamless as possible for the plan participants, so that the employees' (and participants') benefits remain the same after the transaction. The USDOL, which is the federal agency charged with protecting the interest of pension plan participants and beneficiaries, is in the best possible position to address, and adopt if necessary, changes to ensure a uniform and consistent national regulatory scheme for such transactions. State-based

regulation could result in potentially conflicting and confusing multistate regulation for Connecticut businesses, as well as potential ERISA preemption issues.

For these reasons, the IAC urges you to reject HB 5445. Thank you for the opportunity to present the IAC's position on this legislation.